COMMONWEALTH OF PENNSYLVANIA

September 9, 2013

E-FILED

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

Re: PPL Electric Utilities Corporation Transmission Service Charge Effective June 1, 2011
Docket No. M-2010-2213754

PPL Electric Utilities Corporation Transmission Service Charge
Docket No. M-2011-2239805

Dear Secretary Chiavetta:

I am delivering for filing today the Answer to the Petition for Clarification and/or Reconsideration of PP&L Industrial Customer Alliance, on behalf of the Office of Small Business Advocate, in the above-captioned proceedings.

Two copies have been served today on all known parties in this proceeding. A Certificate of Service to that effect is enclosed.

If you have any questions, please do not hesitate to contact me.

Sincerely,

Elizabeth Rose Triscari

Elizabeth Rose Triscari
Assistant Small Business Advocate
Attorney ID No. 306921

Enclosures

cc: Parties of Record
Robert D. Knecht

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PPL Electric Utilities Corp. Proposed Transmission Service Charge (TSC) for The Twelve Months Ending November 30, 2010	:	**DOCKET NO. M-2010-2213754**
PPL Electric Utilities Corporation Transmission Service Charge	:	**DOCKET NO. M-2011-2239805**

ANSWER OF OFFICE OF SMALL BUSINESS ADVOCATE IN SUPPORT OF PETITION FOR CLARIFICATION AND/OR RECONSIDERATION OF THE PP&L INDUSTRIAL CUSTOMER ALLIANCE

I. INTRODUCTION AND BACKGROUND

On August 30, 2013, the PP&L Industrial Customer Alliance ("PPLICA") filed a Petition for Clarification and/or Reconsideration ("Petition") of the Order entered by the Pennsylvania Public Utility Commission ("Commission") on August 15, 2013 ("PPL TSC Order"), in the above-captioned proceedings, regarding the reconciliation of PPL Electric Utilities Corporation's ("PPL Electric" or "Company") transmission service charge ("TSC"). The Commission also entered an order on August 15, 2013, regarding its generic statewide investigation into TSC reconciliation methods at Docket No. M-2011-2239714 ("Generic TSC Order"). Both of the Commission's Orders and PPLICA's Petition refer to comments made by the Office of Small Business Advocate ("OSBA") on June 20, 2011, in this proceeding as well as the generic investigation proceeding. Subsequent to filing these comments, the OSBA reconsidered the issues involved in reconciling transmission costs and submits this Answer in Support to clarify and confirm its current position.

II. ANSWER IN SUPPORT OF PPLICA'S PETITION FOR CLARIFICATION AND/OR RECONSIDERATION

The Commission's PPL TSC Order correctly summarized the OSBA's comments made in June 2011, *i.e.*, that "reconciliation of TSC charges should be based on the same demand data for each of the EDC's customer classes that were used by PJM to bill the EDC for Network Integration Transmission Service (NITS)."[1] The Commission's Generic TSC Order also correctly cited OSBA's June 2011 comments as advocating that *forecast* demand determinants be used for allocating TSC demand-related costs in the reconciliation calculation, rather than using *actual* demand determinants.[2]

However, during the course of this protracted proceeding, the OSBA re-evaluated its position and determined that use of such forecasted rather than actual demand data to reconcile demand-related costs in the TSC is inappropriate. This revised view was presented on July 20, 2012, by OSBA witness Robert D. Knecht in his Direct Testimony in PPL Electric's second default service proceeding at Docket No. P-2012-2302074 ("PPL Electric DSP II"). Specifically, Mr. Knecht stated:

> Second, PPL Electric's reconciliation of the TSC does not reasonably reflect actual costs incurred by class. For demand-related costs (which represent most of the TSC costs), PPL Electric's reconciliation mechanism relies on *forecasted* class contributions to peak demands, rather than *actual* contributions to peak demands. For example, for setting the 2010 TSC, PPL Electric forecasted that [small commercial and industrial ("Small C&I"] customers would represent 27.2 percent of default service peak demand and 30.2 percent of default service energy. (The energy share is a little higher than the demand share, because Small C&I customers have a higher load factor than average for default service.) However, shopping levels for Small C&I customers proved to be proportionally higher than forecast, which caused the

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[1] PPL TSC Order at 20.

[2] Generic TSC Order at 12.

> actual Small C&I energy share to be 24.1 percent rather than the 30.2 percent forecast. Despite this large reduction in energy share, however, the Company retained the forecast 27.2 percent share of demand costs in its reconciliation calculation, despite the fact that the demand costs associated with the shopping customers were shifted over to their EGSs. The net effect of this inconsistency was to provide a large reconciliation credit to the Residential class, and to impose a large reconciliation charge on the Small C&I class.
>
> This method continued to apply to the TSC during DSP I with similar results, generally to the detriment of Small C&I customers. In effect, PPL Electric's TSC reconciliation approach has created undue encouragement for Small C&I customers to shop by overstating the TSC, while reducing the economic incentive for Residential customers to shop by understating the TSC.[3]

As Administrative Law Judge ("ALJ") Susan Colwell notes in the Recommended Decision issued in PPL Electric DSP II, no party objected to Mr. Knecht's testimony quoted above, and in fact, PPL Electric agreed with Mr. Knecht in rebuttal testimony that the TSC calculation should be modified to reflect actual monthly TSC demand per customer class.[4] ALJ Colwell's Recommended Decision explained as follows:

> PPL Electric's current TSC cost allocation and reconciliation procedure among the customer classes is based on each transmission customer class's percentage contribution to the five highest coincident peaks used by PJM to bill PPL Electric for default service transmission costs. The percentages for these five days are averaged to develop a customer class contribution. The resulting calculated class peak load responsibility is adjusted for the forecast amount of default service load for the upcoming annual TSC application period. The adjusted peak load responsibility values then are used to determine the annual percentage of the demand related components of the PJM transmission-related charges assigned to each customer class for the term of the annual TSC application period. Currently PPL Electric uses the same calculated percentages for the after-the-fact

[3] OSBA Statement No. 1, Direct Testimony and Exhibits of Robert D. Knecht at 6-7, Docket No. P-2012-2302074 (footnotes omitted).

[4] PPL DSP II Recommended Decision at 76-77, Docket No. P-2012-2302074.

> reconciliation of the actual demand related costs that are incurred. (PPL Electric St. 5-R, pp. 13-14).
>
> OSBA has challenged the foregoing procedure used to reconcile demand-related costs in the TSC. OSBA contends that PPL Electric's allocation of such demand-related costs to the four TSC customer classes should be revised in the reconciliation process to use experienced class contributions to peak demand during the reconciliation period, rather than the initial forecasted demands that were used to develop the TSC charges. (OSBA St. 1, p. 6). PPL Electric explained in rebuttal that it concurs with Mr. Knecht that a modification of the TSC allocation procedure to reflect actual monthly TSC demand per customer class is appropriate. (PPL Electric St. 5-R, p. 13). PPL Electric witness Kleha explained the process that PPL Electric has recommended to allocate demand costs for purposes of TSC reconciliation in the Commission's Docket No. M-2011-2239714. PPL Electric recognizes that maintaining the same customer class allocation factors can distort the class's responsibility for demand related costs due to customers moving to and from default service. Therefore, PPL Electric proposes that the customer class allocation factors for the demand related transmission costs should be adjusted on a monthly basis. (PPL Electric St. 5-R, p. 15). Under this approach, the percentage of demand-related costs assigned to each customer class would change monthly to account for increases and decreases in the customer classes' assigned peak load responsibility, based on a customer class's share of default service load in a given month. This monthly adjustment to the customer class allocation factors would then be reflected in the annual reconciliation of TSC demand-related costs. (PPL Electric St. 5-R, p. 15).
>
> No party has opposed this modification. Therefore, PPL Electric respectfully recommends that this modification be adopted for the current annual TSC application/reconciliation period, for the twelve months ending May 31, 2013.

PPL Electric MB at 68-69.

As this is unopposed, it is recommended for approval.[5]

[5] *Id.*

The Commission adopted ALJ Colwell's recommendation with respect to TSC reconciliation by Order entered January 24, 2013.[6] In its petition in the instant proceeding, PPL Electric acknowledges that this issue was raised by OSBA in PPL DSP II, and that the matter was resolved for the Company's 2013-2015 default service plan as proposed by OSBA.[7]

Thus, with respect to the issue as to whether forecast or actual customer demands should be used in the TSC reconciliation process, the OSBA agrees with the critique of the OSBA's original comments presented in the Commission's Generic TSC Order and PPL TSC Order, and in fact had modified its position to reflect its fuller understanding of the issue more than a year ago.

With its technical position clarified, the OSBA recognizes that the key issue at hand is whether the correct demand cost reconciliation methodology, unopposed by any party to PPL Electric's recent default service proceeding, and confirmed by the Commission in its Generic TSC Order and PPL TSC Order on a *prospective* basis, should also be applied to the reconciliation of PPL Electric's TSC costs for *prior* default service periods. In this respect, the OSBA finds itself in full agreement with the arguments advanced by PPLICA in the Petition. The OSBA will not repeat PPLICA's very credible arguments for reconsideration herein.

Additionally, the OSBA respectfully submits that reconsideration and/or clarification of the PPL TSC Order is appropriate given that the Commission did not appear to have the benefit of fully considering the OSBA's current position on TSC reconciliation issues and the arguments made herein.

[6] *Pa. PUC v. PPL Electric Utilities, Inc.*, Docket No. P-2012-2302074, Order entered January 24, 2013 at 89.

[7] *Petition of PPL Electric Utilities Corporation for Approval to Refund Certain Transmission Service Charges*, Docket No. M-2011-2239805, filed June 7, 2013, at 10-11.

All parties recognize that the methodology used by PPL Electric to reconcile its TSC in 2008 and 2009 was badly flawed, *if there is a significant difference between the level of forecast shopping and the level of actual shopping.* However, the OSBA notes that the Commission's acceptance of PPL Electric's proposal to use *forecast* demand levels rather than *actual* demand levels for reconciliation of 2010 TSC costs was based primarily on the fact that this method was used for 2008 and 2009, and was unopposed at the time. However, as the Commission itself clearly recognizes in its PPL TSC Order, " . . . the lack of significant disproportionate shopping in 2008 and 2009 masked the way the reconciliation formulas were actually working."[8] This observation is confirmed by the Office of Consumer Advocate's Shopping Statistics for PPL Electric, shown in the table below:

Percent of Customer Load (MW) Served by an Alternative Supplier			
	Residential	Commercial	Industrial
October 1, 2007	0%	0%	0.2%
October 1, 2008	0%	0.1%	0%
October 1, 2009	0%	0.2%	0%
October 1, 2010	37.8%	81.7%	91.8%
October 1, 2011	44.8%	92.8%	96.6%
October 1, 2012	46.6%	90.1%	95.4%
Source: Pa. Office of Consumer Advocate Electric Shopping Statistics; http://www.oca.state.pa.us/Industry/Electric/elecstats/ElectricStats.htm			

Clearly, PPL Electric would have little difficulty in forecasting shopping levels in 2008 and 2009, since no shopping was occurring. This is unsurprising, since below-market generation rate caps remained in place in those years. Thus, the relevance of those years to the issue of reconciliation in 2010 is dubious at best. Moreover, the radical change in shopping levels in

[8] PPL TSC Order at 25.

2010 and 2011 made it all but impossible for PPL Electric to accurately forecast shopping levels in those years. The OSBA respectfully submits that it is unreasonable for the Commission to impose a penalty on non-residential customers as a result of PPL Electric being unable to accurately predict specific customer shopping behavior that was simply impossible to forecast.

Moreover, while the OSBA recognizes that a relatively long period of time has elapsed since the initial damage was done and excessive costs were assigned to non-residential customers based on the flawed methodology, all parties were aware that this issue was not resolved, and all parties were aware that the Company's reconciliation was subject to Commission audit. As the Commission's audit report for PPL Electric's 2010/2011 TSC was only just released on August 15, 2013, the OSBA respectfully submits that applying a remedy to this historical inequity is still timely, as a simple matter of basic fairness and appropriate application of the law.

Finally, the OSBA observes that if refunds are to be credited to non-residential customers for the 2010 and 2011 periods related to correcting the historical misallocation of transmission costs, the Company's proposed method to provide refunds on a customer-by-customer basis may not be practicable for the Small C&I rate class. The OSBA respectfully suggests that if the Commission determines that the allocation method should be corrected, the matter of how such costs should be refunded to customers be remanded to the Office of Administrative Law Judge for adjudication.

III. CONCLUSION

The OSBA respectfully requests that the Commission reconsider and/or clarify the PPL TSC Order in accordance with the arguments presented herein.

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Dated: September 9, 2013

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PENNSYLVANIA PUBLIC UTILITY COMMISSION

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CERTIFICATE OF SERVICE

I certify that I am serving two copies of the Answer to the Petition for Clarification and/or Reconsideration of PP&L Industrial Customer Alliance, on behalf of the Office of Small Business Advocate, by e-filing, e-mail, and/or first-class mail (unless otherwise noted) upon the persons addressed below:

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